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SUBJECT: Lawsuits, Layoffs and Interest Rate Hikes in Hong Kong

¶1. Summary: The Hong Kong Association of Banks has reportedly suggested postponing plans to buy back Lehman minibonds, while an American law firm has contacted Hong Kong investors, offering to explore the possibility of filing a class action lawsuit in the U.S. against HSBC. Financial Secretary John Tsang and Secretary for Financial Services and the Treasury KC Chan continued to press for completion of a buyback agreement. HSBC and Bank of China (Hong Kong) raised mortgage interest rates to generate additional cash flow; Standard Chartered Bank, and CITIC Ka Wah Bank confirmed lay-off plans designed to cut costs. Hong Kong television station TVB also announced significant layoffs. Government calls for private enterprise to remember their social responsibilities and avoid cutting staff appear to have fallen on deaf ears. The Hang Seng dropped 42 points for the week on thin trading. End Summary

Buyback Plan Scrapped? Investors Plan US Lawsuit

¶2. A December 5 report in the pro-Beijing Wen Wei Po said that the Hong Kong Association of Banks had canceled its scheduled meeting with government representatives. A spokesman for the Hong Kong Association of Banks told Wen Wei Po that the buyback plan could be postponed "indefinitely." The Association continues to seek advice from its legal counsels and hopes to propose amendments to the current proposal. Retail banks involved in marketing minibonds are reportedly not willing to take the "unlimited risks" that the government plan would require.

¶3. The Hong Kong Economic Times reported that HSBC USA is also seeking legal advice as it seeks to understand its obligations as the trustee institution in possession of the assets underlying the minibonds. Democratic Party Legco member James To told Ming Pao reporters that a group of American lawyers have contacted the Democratic Party, hoping to collect information to assist a class action lawsuit against HSBC USA for failure to adequately perform its duties as trustee. A spokesman of the Alliance for the Lehman minibond holders confirmed to the press Friday afternoon that the Alliance is planning to hire American lawyers to file a class action against HSBC USA.

HSBC and BOC(Hong Kong) Raise Mortgage Rates

¶4. HSBC and Bank of China (Hong Kong) raised mortgage rates on new residential properties by 50-75 basis points to 3.5-4.0 percent, despite the declining cost of funds in recent weeks. Analysts believe the banks are seeking to boost their cash intake in the face of expected declines in fee income over the next several months. November property transactions in Hong Kong were the lowest since the mid-1980s, just 3700, compared to a normal average of closer to 10,000 transactions per month.

¶5. Needless to say, the HSBC and BOC (HK) move was not welcomed by real estate developers or agents. Two leading real estate developers continued to express confidence in the Hong Kong's property sector. New World Chairman Cheng Yu-tung said property prices in Hong Kong would not drop significantly in 2009, while Sun Hung Kai Properties Vice Chairman Thomas Kwok said he expects a 5

percent rise in Hong Kong's property prices in the coming year. While these estimates may be overly optimistic, property analysts note that Hong Kong's property market and developers are in far stronger positions than during the Asian Financial Crisis when property values dropped by 70 percent.

#### Banks and Others Announce More Layoffs

16. Standard Chartered Bank and CITIC Ka Wah Bank have confirmed plans to lay off additional employees. Hong Kong TVB, a free-to-air TV station owned by tycoon Sir Run-Run Shaw, fired over 200 staff early this week. Early this week, Financial Secretary John Tsang again called upon major employers to remember their social responsibilities during the economic downturn as he briefed Legco members on Hong Kong's economic prospects. The Financial Secretary reassured Legco that the government would create 7,000 new jobs in the next three months - presumably through expanded maintenance and public works projects and initiatives to support SMEs.

#### Hang Seng Index Down 42 points for the Week

17. The Hang Seng Index closed at 13,846.09 on Friday, December 5, up 2.5 percent or 336.31 points from Thursday's closing. Daily trade was a meager HKD 37 billion. The Index lost 42.15 points for the week. Market analysts believe that the Hang Seng Index could stabilize at the 13,000-14,000 level if there is no additional bad news coming out before Christmas, but predicted trading would continue to be weak as the Christmas and New Year's holidays approach. HIBOR on Friday, December 5, was 0.2 percent for overnight, 0.3 percent for 1-W, 1.2 percent for 1-M and 1.78 percent for 3-M.